



The Angolan Economy

Eurobond issue of US\$ 1.5 billion

NEWS: The Angolan government announced that it has raised US\$ 1.5 billion in its debut Eurobond issue in international markets with a yield of 9.5% and a maturity of 10 years. The Ministry of Finance stated that the key objectives of this issue included (1) diversifying the external financing sources, (2) establishing sources of long-term financing with international investors, (3) improving the evaluation of rating agencies, (4) building a yield curve and (5) possibly increasing the amount of international reserves.

The local authorities added that this sovereign issue process was initiated in 2011 and that due to Angola's high concentration in the traditional sources of funding (bilateral, commercial and credit lines) it thought it would be best to seek alternative sources. It relied on the technical and legal advice of several international institutions, including Goldman Sachs, JP Morgan, the World Bank and the IMF. Angola has also undergone periodic evaluations from the main rating agencies.

The government believes that an operation like a Eurobond issue could significantly increase Angola's visibility in international markets, namely in what concerns the transparency in the management of fiscal accounts and the costs associated with financing the state's budget. These are indispensable conditions when determining the solvency levels and the ability of a country to honor its commitments in local and foreign currency. It also believes that the social, political and economic progress that the country has witnessed in the years following the end of its civil war has increased the interest of European and US investors in an eventual sovereign debt issue. As a result, the President of Angola mandated Goldman Sachs, Deutsche Bank and Industrial and Commercial Bank of China (ICBC) to act as banking agents representing the Angolan State in the debt issue operation.

OPINION: We believe this issue shows that investor appetite for African Eurobond deals remains intact, despite the increasingly adverse market conditions for emerging markets. According to local sources, investor demand for this issue was quite significant, which in our view could lead the Angolan authorities to consider doing additional Eurobond issues in the future. We note that Zambia raised US\$ 1.25 billion in July with a yield of 8.97% and a maturity of 12 years while, in October, Ghana issued US\$ 1 billion in a 15-year bond at a yield of 10.75%.

As mentioned by the Angolan authorities, this issue will allow the country to be less dependent on the traditional sources of credit. It is worth highlighting that the vice-president of Angola recently stated that the country expected to borrow US\$ 10 billion in international markets for a range of projects slated for 2016-17, with the majority of the funds already secured. Sectors covered in the projects reportedly include education, health, water and roads. The loans secured this year include (1) US\$ 6 billion from Chinese sources, (2) US\$ 650 million agreed with the World Bank, comprising a loan of US\$450 million and a guarantee of US\$200 million and (3) commercial loans from Société Générale (US\$500 million), BBVA (US\$ 500 million), Goldman Sachs (US\$ 250 million) and Gemcorp Capital (US\$ 250 million). All in all, these loans should lift Angola's public debt to GDP levels above 57% (including nearly 15% of GDP from Sonangol) this year, a significant increase from the 42.2% registered in 2014.

Research

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